

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 3881 - HB 3922

March 2, 2010

SUMMARY OF BILL: Increases the alcoholic beverage tax from \$4.40 per gallon to \$4.84 per gallon on spirits. Increases the tobacco tax on cigarettes from 62 cents per pack to 82 cents per pack. Allocates 40 percent of new revenue generated from the tax increases to funding crime prevention grants; 30 percent to funding grants authorized by the Drug Court Treatment Act of 2003; and 30 percent to funding grants for community mental health centers and other elements of the community based system of services and support for persons with mental illness.

ESTIMATED FISCAL IMPACT:

Increase State Revenue –

\$37,903,000/Earmarked for Crime Prevention Grants
\$28,427,200/Earmarked for Drug Court Treatment Act Grants
\$28,427,200/Earmarked for Community Mental Health Care Grants
\$6,633,000/General Fund

Increase Local Revenue - \$2,368,900

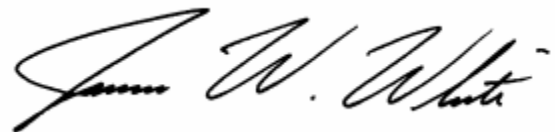
Assumptions:

- The Governor's Recommended Budget Document estimates tobacco tax revenue and alcoholic beverage tax revenue to be \$301,500,000 and \$45,900,000 for FY10-11 respectively.
- The Department of Revenue (DOR) estimates that 96.4 percent of tobacco tax revenue is attributable to cigarettes and that 73.6 percent of alcoholic beverage tax revenue is attributable to liquor.
- Tobacco tax revenue collections derived from cigarettes is estimated to be \$290,646,000 in FY10-11 ($\$301,500,000 \times 96.4\% = \$290,646,000$); and alcoholic beverage tax revenue collections derived from liquor is estimated to be \$33,782,400 in FY10-11 ($\$45,900,000 \times 73.6\% = \$33,782,400$).
- Tobacco tax collections on cigarettes and excise tax collections on liquor remains constant in subsequent years under current law.
- The number of units of liquor that will be consumed under current law is estimated to be 7,677,818 per year ($\$33,782,400 / \$4.40 \text{ tax rate} = 7,677,818$).
- One percent decline in consumption of liquor due to tax increase.

- The adjusted number of units of liquor that will be consumed is estimated to be 7,601,040 per year ($7,677,818 \times 99.0\% = 7,601,040$).
- The increase to alcoholic beverage tax revenue is estimated to be \$3,344,500 per year ($7,601,040 \text{ units} \times \$0.44 \text{ tax increase} = \$3,344,459$).
- The current excise tax on cigarettes is 62 cents per pack.
- The number of packs that will be consumed under current law is estimated to be 468,783,871 per year ($\$290,646,000 / \$0.62 = 468,783,871 \text{ packs}$).
- The decline in cigarette consumption due to the tax increase is estimated to be 2.5 percent.
- The adjusted number of packs of cigarettes that will be consumed is estimated to be 457,064,274 per year ($468,783,871 \times 97.5\% = 457,064,274$).
- The increase to tobacco tax revenue is estimated to be \$91,412,900 per year ($457,064,274 \text{ packs} \times \$0.20 \text{ tax increase} = \$91,412,854$).
- Pursuant to the proposed apportionment rates, approximately \$37,903,000 will be earmarked for crime prevention grants [$(\$3,344,500 + \$91,412,900) \times 40.0\% = \$37,902,960$]; approximately \$28,427,200 will be earmarked for grants authorized by the Drug Court Treatment Act of 2003; and \$28,427,200 will be earmarked for grants for community mental health centers.
- State and local option sales tax is computed on the after-tax price of cigarettes and liquor (after the assessment of tobacco tax and excise tax respectively).
- The current state sales tax rate is seven percent.
- The average local option sales tax rate is estimated to be 2.5 percent.
- The increase to state sales tax revenue is estimated to be \$6,633,000 per year [$(\$3,344,500 + \$91,412,900) \times 7.0\% = \$6,633,018$].
- The increase to local government revenue is estimated to be \$2,368,900 per year [$(\$3,344,500 + \$91,412,900) \times 2.5\% = \$2,368,935$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc